

**PIONEER RAILROAD EQUIPMENT CO., LTD**  
1318 SOUTH JOHANSON ROAD • PEORIA, ILLINOIS 61607 • (309) 697-1400

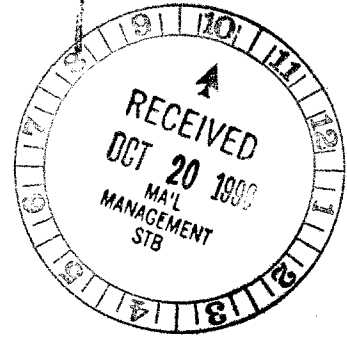
RECORDATION NO. 22512 FILED

NOV 2 '99

10-45 AM

October 12, 1999

Surface Transportation Board  
Recordation Unit  
1925 "K" Street, N.W.  
Washington, D.C. 20423



Dear Sir or Madam:

Enclosed for recording, is a Locomotive Lease, covering the lease of certain specified locomotives from Pioneer Railroad Equipment Co., LTD., to the New Orleans & Gulf Coast Railway Company. Also enclosed is a check in the amount of \$26.00, as requested, and a copy of the lease, which I ask that you file-stamp and return to me.

I appreciate your assistance with this matter. If you have any questions, please do not hesitate to call me.

Sincerely,

Jonathan L. Kazense  
General Counsel

Enclosures.

## LOCOMOTIVE LEASE AGREEMENT

THIS LOCOMOTIVE LEASE AGREEMENT ("Lease") is entered into this 11<sup>th</sup> day of October, 1999, by and between PIONEER RAILROAD EQUIPMENT CO., LTD., as Lessor, whose address is 1318 S. Johanson Road, Peoria, Illinois 61607 (hereinafter "PREL"), and NEW ORLEANS & GULF COAST RAILWAY COMPANY, a Delaware corporation, as Lessee, whose address is 4420 W. Vickery Blvd., Suite 110, Fort Worth, Texas 76107 (hereinafter "Lessee"); WITNESSETH THAT:

WHEREAS PREL is the owner of certain locomotive(s) hereinafter described; and

WHEREAS Lessee is desirous of leasing said Locomotive(s) for use as motive power on its common carrier freight and passenger service on the New Orleans & Gulf Coast Railway Company in/near the State of Louisiana; said Locomotive(s) not to leave the territory of the United States of America;

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. LEASE AND LEASED PROPERTY. Lessee hereby leases from PREL, two (2) EMD Type F-7 locomotive(s), currently marked "PREX" #406 and "PREX" #104 (hereinafter the "Locomotive(s)"), together with the parts, accessories, attachments and devices, if any, now or hereafter affixed thereto, under the terms and conditions herein provided.

2. TERM. The term of this Lease shall commence on the date the Locomotive(s) are interchanged to the connecting carrier by the Keokuk Junction Railway (KJRY), and shall continue (unless sooner terminated as provided herein) for a period of one (1) year, and thereafter on a month-to-month basis, terminating upon the return of the Locomotive(s) as provided in Section 6.

3. RENTAL.

(A) The rental payable shall be \$2,000.00 per month, for each of the Locomotive(s). Lessee shall pay for the first month (a total rental of \$4,000.00), in advance, upon the execution of this Lease. Thereafter, Lessee shall pay, monthly, in advance, upon the anniversary date of this Lease, for each of the Locomotive(s) covered hereunder. After the Locomotive(s) have been returned in accordance with Section 6, and deduction for any other sums due PREL, PREL shall refund any excess paid by Lessee for the last month's rental payment (assuming that the Lease terminates on a date other than the anniversary date), on a pro-rata basis, based upon the number of days the Lease is in force during the last month, and assuming a thirty-day month. It is also understood that rental shall continue on such pro-rata basis until the Locomotive(s) are interchanged to PREL at the KJRY by KJRY's connecting carrier, in accordance with Section 6.

(B) If any payment of Rental due is more than five (5) calendar days late, there shall be a late fee of \$100.00 per locomotive due and payable to PREL, for administrative cost of such late payment.

(C) All Rentals shall be paid to PREL at 1318 S. Johanson Road, Peoria, Illinois 61607, or at such other address as PREL may from time to time direct in writing.

4. TAXES. Lessee shall be responsible for the payment and filing of all use, excise, ad valorem, personal property, stamp, documentary and similar taxes levied or imposed upon, or relating to this lease of the Locomotive(s), or the use, registration, rental, maintenance, possession or operation thereof, and shall hold PREL harmless against any liability and expense (including attorney fees and court costs and expenses) on account of Lessee's failure to do the same.

5. OWNERSHIP AND INSPECTION. PREL shall retain all rights and interest in the Locomotive(s) not herein specifically mentioned, including but not limited to:

(A) The Locomotive(s) shall at all times remain the sole and exclusive property of PREL.

(B) Upon reasonable notice to Lessee, PREL or its agents shall have free access to the Locomotive(s) at reasonable times for the purpose of inspections.

(C) No accessions, additions, alterations, improvements to or removals from the Locomotive(s), of any nature, shall be made without PREL's written consent, except that Lessee may add ditch lights and/or Mars light, but if any additions or improvements are made, they immediately shall become part of the Locomotive(s) and shall become PREL's sole and exclusive property.

(D) Lessee shall keep the Locomotive(s) at all times free and clear of all claims, liens, and encumbrances.

(E) This Lease is intended to be a true lease of the Locomotive(s), and is not intended and in no way shall be construed to create a sale of the Locomotive(s) or the creation of any equity or ownership interest therein.

6. DELIVERY/RETURN. Delivery of the Locomotive(s) shall be accepted by Lessee at the Keokuk Junction Railway ("KJRY") yard in Keokuk, Iowa. PREL shall cause the Locomotive(s) to be interchanged to KJRY's connecting carrier to be shipped to Lessee. Lessee shall pay for all transportation charges (except that KJRY shall not assess any transportation charge for movement on its rails). Upon the termination of this Lease, whether by expiration or otherwise, Lessee shall return the Locomotive(s) to PREL, in substantially the same order and condition as that received, reasonable wear and tear excepted, by causing the Locomotive(s) to be shipped and interchanged to KJRY; Provided, however that PREL may designate some other return destination, so long as the freight charges do not exceed those to KJRY, or PREL shall pay any such difference. Lessee shall pay all costs and expenses for such return shipment and Lessee shall pay or reimburse PREL for any reasonable expenses incurred by PREL in returning the Locomotive(s) to running condition. Prior to shipment, Lessee and PREL shall conduct a joint inspection in Keokuk, Iowa to confirm the condition of the Locomotive(s).

7. LESSEE'S INSPECTION/WARRANTY DISCLAIMER.

(A) Lessee hereby acknowledges that it has had the opportunity to make a joint inspection of the Locomotive(s) prior to accepting delivery of same, and that acceptance of delivery of the Locomotive(s) by Lessee constitutes acknowledgment that it has been received in running condition and repair. PREL shall not be responsible for any repairs or maintenance of the Locomotive(s) during the term of this Lease, except as provided in Section 8.

(B) Delivery to and acceptance of the Locomotive(s) by, and execution of this Lease by Lessee shall constitute acknowledgment that the Locomotive(s) are of the manufacture, design, utility, quality and capacity selected by Lessee; that Lessee is satisfied that the same is suitable for its purpose and that Lessee waives any and all warranties, except those expressly made in Section 8.

8. WARRANTY. PREL DISCLAIMS ALL WARRANTIES, EXPRESSED AND IMPLIED, AND MAKES NO REPRESENTATION, EXPRESSED OR IMPLIED, WITH RESPECT TO THE CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF THE LOCOMOTIVE(S). THE LOCOMOTIVE(S) WILL BE DELIVERED "AS IS" AND "WITH ALL FAULTS", EXCEPT THAT THE LOCOMOTIVE(S) WILL BE INTERCHANGED TO KJRY'S CONNECTING CARRIER IN INTERCHANGE CONDITION. If the connecting carrier at KJRY rejects the Locomotive(s) for interchange at KJRY, PREL shall have the option to correct the defect(s), or to terminate the contract, as to the one or all of the Locomotive(s), within a reasonable time.

If PREL elects to terminate this Lease, it shall have no liability whatsoever to Lessee. If the connecting carrier at KJRY accepts the Locomotive(s), such acceptance shall create an irrebuttable presumption that the Locomotive(s) were delivered in interchange condition. PREL also warrants that it has good and valid title to the Locomotive(s) and will defend such title against any third party. IN NO EVENT SHALL PREL BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT OR SPECIAL DAMAGES OF ANY NATURE WHATSOEVER, INCLUDING BUT NOT LIMITED TO LOSS OF REVENUES, PROFITS OR USE. Lessee acknowledges that PREL is not the manufacturer of the Locomotive(s), or any part thereof, nor is it an agent or dealer for the manufacturer or any supplier of any part thereof, and that the Locomotive(s) were purchased "used" by PREL and can be expected to perform and have all of the maintenance needs of used Locomotive(s). Nothing herein shall preclude Lessee from pursuing any claim against any third party for damage to the Locomotive(s) occurring after they are interchanged to the connecting carrier at KJRY.

9. USE/MAINTENANCE. Lessee agrees that:

(A) Lessee shall be responsible for and pay all registrations, certificates, and permits, and all other similar requirements of governmental authorities, whether required to be obtained in the name of Lessor or Lessee.

(B) The Locomotive(s) shall be used and operated only by properly qualified, trained and registered personnel authorized by Lessee, and in no event shall Lessee permit anyone to operate the Locomotive(s) who is not properly licensed under Federal Railroad Administration ("FRA") regulations.

(C) Lessee shall comply with all federal, state, municipal and local laws, ordinances, rules and regulations relating to the lease, possession, use and operation of the Locomotive(s).

(D) Lessee shall be solely responsible for the payment of any and all fines, penalties or forfeitures (including, without limitation, the seizure or confiscation of the Locomotive(s)) levied upon or arising out of the use, operation, maintenance or insuring of the Locomotive(s) in violation of any law, ordinance, rule or regulation of any governmental authority.

(E) Lessee shall pay all costs, expenses and charges incurred in connection with the maintenance, lease, use, possession and operation of the Locomotive(s).

(F) Lessee shall maintain the Locomotive(s) in running order and in compliance with all manufacturer's specifications and rules and regulations now or hereafter promulgated by the FRA or any other governmental authority having jurisdiction.

(G) Lessee shall keep and maintain any and all books and records and make any filings required by any governmental authority with respect to the possession, lease, use or operation of the Locomotive(s).

(H) Lessee shall use the Locomotive(s) in the service specified in the recital hereinabove, and no other, except with the prior written consent of PREL, which consent shall not be unreasonably withheld, provided such other service is upon the contiguous railroad system of the United States of America or the Dominion of Canada. PREL reserves the right to condition such consent on an additional return/security deposit.

(I) Lessee shall perform any and all repairs necessary to keep the Locomotive(s) in at least as good a condition as they were in at the commencement of this Lease.

10. PAINTING OF LOCOMOTIVE(S).

(A) Lessee shall have the option of painting the Locomotive(s) itself. If

Lessee chooses to paint the Locomotive(s) itself or through the use of a third party contractor, only quality materials suitable for locomotive application shall be used. There will be no deduction in the monthly rental if Lessee chooses to paint or have the locomotive(s) painted by someone other than PREL.

11. LIENS, CHARGES. Lessee shall promptly and fully pay for all supplies or materials furnished for, or labor performed upon the Locomotive(s), at the instance or request or on behalf of Lessee, and shall not permit or suffer any mechanic's or materialman's lien of any kind or nature to be filed or enforced against the Locomotive(s). Lessee shall indemnify and hold harmless PREL against and from any and all liens, claims, demands, costs and expenses of whatsoever nature (including, without limitation, court costs and attorney fees) in any way connected with or growing out of such work done, labor performed or materials or supplies furnished.

12. INSURANCE.

(A) Lessee shall procure and maintain, at its sole cost and expense, the following kinds of insurance, and provide PREL with a certificate(s) of insurance certifying to the effectiveness of such coverage:

i. Comprehensive Railroad Liability insurance (including Federal Employer's Liability Act ("FELA") liability insurance, covering all employees involved in railroad operations on or near the Locomotives(s) in an amount not less than five million dollars (\$5,000,000.00) combined single limit per occurrence, including, without limitation, protection of the interests of Lessee and PREL, including Lessee's operators, with respect to liability for injuries to or death of passengers and third persons and damage to or loss or destruction of property of passengers and third persons resulting from the possession, maintenance, use or operation of the Locomotive(s).

ii. Collision and comprehensive physical damage insurance on the Locomotive(s) for the term of this Lease, in an amount not less than the replacement value of the Locomotive(s), and covering all risks, including, but not limited to, natural and man-made disasters, flooding, freezing, thawing, storms, vehicular accidents, derailments, collision with other locomotive(s) or railroad rolling stock or equipment, vandalism, and theft.

(B) Lessee shall promptly pay when due all premiums for such insurance, and shall keep such insurance in force for the life of this Lease. Such insurance policy(ies) shall contain an endorsement naming Pioneer Railroad Equipment Co., Ltd. as an additional insured and a loss payee with respect to all liabilities arising out of Lessee's obligations hereunder, severability of interests, and shall provide that coverage shall not be canceled or changed during the term of this Lease without giving at least thirty (30) days prior written notice to PREL at the address for insurance correspondence specified hereinbelow.

(C) All insurance required herein shall be written by an insurance company or companies satisfactory to PREL and authorized to transact business in all of the states in which the Locomotive(s) are to be operated;

(D) All insurance required herein shall provide by endorsement a waiver of subrogation rights by the insurance company and Lessee hereby waives its right to subrogation, as respects the above insurance policy(ies), against PREL for payments made to or on behalf of employees or agents of Lessee, and for loss of its owned or leased property or property under its care, custody or control. The insurance provided for herein shall be primary with respect to any insurance carried by PREL.

(E) Lessee WARRANTS that this Lease has been thoroughly reviewed by its insurance agent(s)/broker(s) and that said agent(s)/broker(s) has been instructed to procure the insurance coverage and endorsements as required herein.

(F) If Lessee shall fail to obtain or maintain the insurance coverage

required in this Lease, or shall fail to furnish PREL with certificates therefor, PREL, at its option, may obtain such insurance on behalf of Lessee and at Lessee's expense.

(G) All insurance correspondence shall be directed to: General Counsel, Pioneer Railroad Equipment Co., Ltd., 1318 S. Johanson Road, Peoria, Illinois 61607, or such other address as PREL may provide in writing to Lessee.

### 13. INDEMNIFICATION.

(A) Notwithstanding the insurance provisions included hereinabove, and irrespective of any responsibility for negligence, Lessee does hereby agree to defend, indemnify, protect and hold harmless PREL, its officers, directors, employees, agents, attorneys, insurers, parents, subsidiaries, affiliated companies, successors and assigns, from and against any and all losses, liabilities, damages, claims, actions, causes of action, penalties, fines, judgements, costs and expenses (collectively "Claim") resulting from, arising out of, or in any way connected with the use, possession, condition, operation, or maintenance of the Locomotive(s), if the act or omission giving rise to the Claim occurs during the term of this Lease, or any renewal thereof. This Section is intended to cover, but not be limited to, FELA claims, derailments, crossing or other vehicular accidents, FRA and other health and safety actions, and any claim brought by any state, federal, or local governmental agency or instrumentality under any environmental protection statute, rule, regulation, ordinance, order or other mandate (including the Comprehensive Environmental Response Compensation and Liability Act). This covenant of indemnity shall continue in full force and effect notwithstanding the termination of this Lease.

(B) Lessee assumes and agrees to indemnify, protect and hold harmless PREL, its successors and assigns, from and against any and all loss, cost and/or expenses arising out of or resulting from any loss, damage, theft or destruction of the Locomotive(s) or any part thereof.

14. ASSIGNMENT OF LEASE. PREL shall have the unconditional right to assign this Lease, in whole or in part. Lessee shall have no right to assign or sub-lease this Lease or the Locomotive(s), or any interest therein, except upon the prior written consent of PREL, which consent may be granted or denied at PREL's sole discretion.

### 15. DEFAULT.

Lessee shall be in default under this Lease upon the happening of any of the following events or conditions ("Event of Default"):

(A) Default in the payment when due of any installment of rental hereunder or of any other obligation for the payment of money now or hereafter owed by Lessee to PREL.

(B) Default in the timely performance of any other liability, obligation, covenant or agreement of Lessee hereunder.

(C) The filing of any insolvency, bankruptcy or similar proceeding by or against Lessee under the provisions of the United States Bankruptcy Code or any insolvency law or other statute or any law providing for the modification or adjustment of the rights of creditors, including any assignment by Lessee for the benefit of creditors.

(D) The dissolution or liquidation of Lessee.

(E) If the Lessee is a common carrier, the abandonment, cessation of service, or embargo of all or substantially all of Lessee's rail line.

16. REMEDIES UPON DEFAULT.

(A) Upon the occurrence of any Event of Default, and after first giving notice to Lessee as provided in Section 18, giving Lessee ten (10) days to correct said deficiency or default, if Lessee still has not remedied the Event of Default, PREL, in its sole discretion, may take one or more of the following actions with respect to the Locomotive(s):

I. Declare all unpaid amounts of rental to be immediately due and payable.

ii. Terminate the Lease of the Locomotive(s) by written notice.

iii. Require that Lessee shall, at Lessee's expense, promptly make available to PREL at Lessee's expense, the Locomotive(s) at a place designated by PREL which is reasonably convenient to both parties.

iv. To take immediate possession of the Locomotive(s) wherever located, and secure them, in such manner as PREL, in its sole discretion deems necessary for its safe-keeping and protection, and Lessee hereby waives and disclaims any rights at law or in equity to notice of such repossession.

v. Sell or lease the Locomotive(s), at a public or private sale or proceeding, at such time or times and upon such terms as PREL may determine, free and clear of any rights of Lessee and, if notice thereof is required by applicable law, any notice in writing of any such sale or lease by PREL to Lessee not less than five (5) days prior to the date thereof shall constitute reasonable notice to Lessee.

vi. Proceed by appropriate action either at law and/or in equity to enforce performance by Lessee of the applicable covenants of this Lease and/or to recover damages for the breach thereof and/or to rescind the Lease hereunder of the Locomotive(s).

vii. Exercise any and all other rights and remedies available to PREL under any applicable law. In addition, Lessee shall be charged with and shall pay to PREL all reasonable costs and expenses (including, without limitation, court costs and attorney fees) of PREL incurred as a result of each Event of Default by Lessee.

(B) None of the rights and remedies under or referred to in this Section 15 are intended to be exclusive, but each such right or remedy shall be cumulative and may be availed of separately or concurrently with or in addition to any other right or remedy provided or referred to herein or otherwise available to PREL at law or in equity. Any repossession or subsequent sale or lease by PREL of any Locomotive(s) shall not bar an action against Lessee for a deficiency.

(C) Without limitation of any rights of PREL otherwise existing or otherwise available to PREL, it is expressly covenanted and agreed by the parties hereto that in the event of any assignment by operation of law of this Lease or of any bankruptcy or similar action as described in Section 14(C), or any Event of Default described in Section 14(D) or 14(E), PREL may at its option, immediately terminate this Lease, and take such other action as may be necessary or desirable to protect its interest in the Locomotive(s), without the Notice or opportunity to correct, provided for in subsection 15(A) above.

17. RECORDATION OF PREL'S INTEREST. Lessee agrees to execute all documents requested by PREL to show PREL's interest in the Locomotive(s). Lessee further authorizes PREL to execute and file financial statements or other documents evidencing PREL's interest in the Locomotive(s) without Lessee's signature.

18. TERMINATION.

(A) This Lease shall continue in full force and effect until the termination date, as provided in subsection (B) hereinbelow, or until the Locomotive(s) are returned to PREL by Lessee, at its cost and expense, as provided in Section 6, whichever is later. Unless otherwise agreed by the parties, interchange of the Locomotive(s) to KJRY by its connecting carrier, in substantially the same condition they were in at the commencement of this Lease, shall constitute return of the Locomotive(s).

(B) This Lease may be terminated by either party, upon the anniversary date of the Lease in any month, after the expiration of the initial one (1) year term, upon the serving of notice upon the other, not less than thirty (30) days prior to the termination date. Lessee shall ship the Locomotive(s) prior to the termination date, so that they will reach their destination as close to the termination date as possible.

19. NOTICE. Any Notice required or permitted to be given hereunder shall be by certified mail, postage fully prepaid, and return receipt requested, and shall be addressed to the respective parties at their addresses recited in the preamble hereinabove, or at such other address as the parties may from time to time give notice of. Such Notice shall be effective when received, refused, or returned by the postal service as undeliverable.

20. CHOICE OF LAW; CHOICE OF FORUM. This Lease shall be governed, construed and enforced in accordance with the laws of the State of Illinois, without regard for the principles of conflict of laws. Litigation arising out of or connected with this Lease may be instituted and maintained in the courts of the State of Illinois only, and the parties consent to jurisdiction over their person and over the subject matter of any such litigation in those courts, and consent to service of process issued by such courts. Nothing herein contained, however, shall prohibit PREL from seeking specific performance, injunctive relief, or the enforcement of any order or judgment, in any jurisdiction where such is necessary or convenient.

21. SEVERABILITY. If any clause or provision of this Lease is finally determined to be invalid, illegal or unenforceable by a Court of competent jurisdiction, then that clause or provision only shall be held inoperative, as though not herein contained, and the remainder of this Lease shall remain operative and in full force and effect.

22. WAIVER OF BREACH. The waiver by PREL of the breach of any condition, covenant or agreement herein contained to be kept, observed or performed by the Lessee shall in no way impair the right of PREL to avail itself of any subsequent breach thereof, whether of the same or similar nature, or not. No failure or delay on the part of PREL in exercising any right, power or remedy hereunder shall preclude any subsequent or further exercise thereof.

23. CONSTRUCTION. This Lease constitutes the entire agreement between the parties and supersedes any and all prior agreements, oral or written. No waiver, modification, or amendment of this Lease shall be of any force or effect unless made in writing, signed by the parties, and specifying with particularity the nature and extent of such waiver, modification or amendment. Section headings used in this Lease are inserted for convenience of reference only and shall not be deemed to be a part of this Lease for any purpose. Unless otherwise expressly provided or unless the context otherwise requires, words importing the singular number shall mean and include the plural and vice versa.

24. SUCCESSORS AND ASSIGNS. Subject to the provisions of Section 13, above, this Lease shall be binding upon and inure to the benefit of the parties and their respective officers, directors, employees, agents, insurers, attorneys, successors and assigns.

Dated this 11<sup>th</sup> day of October, 1999.

PIONEER RAILROAD EQUIPMENT CO., LTD.

By: Guy H. Brunk  
Name:  
Its: CEO

NEW ORLEANS & GULF COAST RAILWAY COMPANY

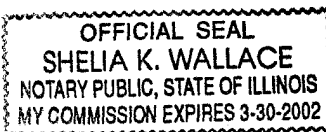
By: Daniel T. McShane  
Name: DANIEL T. MCSHANE  
Its: PRESIDENT

STATE OF ILLINOIS )  
COUNTY OF Peoria ) SS

The undersigned authority, a Notary Public, hereby certifies that Guy Brunkman, of Pioneer Railroad Equipment Co., Ltd., signed the foregoing instrument and, being known to me, acknowledged before me this day that, being informed of the contents of said instrument, he signed as the CEO of said corporation, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this 11th day of October, 1999.

Shelia K. Wallace  
Notary Public



STATE OF Texas )  
COUNTY OF Bexar ) SS

The undersigned authority, a Notary Public in and for said County and State, hereby certifies that Daniel McShane of New Orleans & Gulf Coast Railway Company, signed the foregoing instrument and, being known to me, acknowledged before me this day that, being informed of the contents of said instrument, he signed as the President of said corporation, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand and official seal this 6 day of October, 1999.

Susan Kunschik  
Notary Public

